

HSBC China Services PMI (with Composite PMI data)

Business activity in the Chinese private sector rose markedly in April.

Summary

At 57.7 in April, the seasonally adjusted headline HSBC Composite Output Index was consistent with a steep rise in Chinese private sector activity. However, overall output growth eased since March, primarily reflecting a weaker rise in manufacturing production. Services activity also rose at a slower rate, with the HSBC Business Activity Index falling slightly from 58.7 to 58.5 in April.

New business taken by Chinese service providers increased again in April, extending the current period of growth to seventeen months. The rate of expansion in new work was substantial, having accelerated to the most marked in eight months. However, a slower rise in manufacturing new orders meant that overall new business growth was weaker than March's series record.

April data signalled that outstanding business levels in the Chinese service sector rose for the first time since January. This, combined with a strong rise in unfinished business in the manufacturing sector, meant that private sector backlogs of work rose at the fastest rate in the series history.

Staffing levels in the Chinese service sector increased for the fifteenth successive month in April. The pace at which firms added to their staff numbers was marked, and the fastest since the start of the series in November 2005. At the composite level, employment rose at a solid rate.

Average cost burdens faced by Chinese private sector companies rose sharply in April. By sector, manufacturers saw a notable acceleration in the rate of input price inflation and a stronger increase in costs than service providers.

Output price inflation in the Chinese manufacturing sector accelerated in April, while service providers recorded a modest rise in prices charged. As a result, composite data signalled that private sector firms raised their output charges at the fastest rate in three months during April.

Chinese service providers remained confident about the one-year outlook for business activity in April. Despite easing from March's twenty-month high, the degree of optimism was considerable.

Comment

Commenting on the China Manufacturing PMI survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

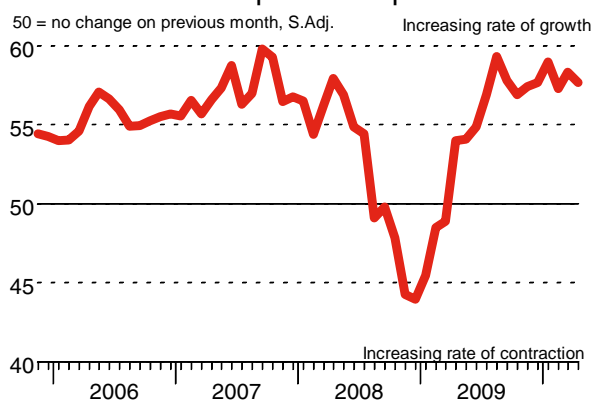
"Despite the slight moderation in the headline service PMI, the sustained strength in China's services sector has contributed to continuous improvement in the labor market. This provides more leeway for Beijing to slow down new infrastructure investment to contain overheating risks."

Key points

- Overall activity growth was substantial, despite easing since March.
- Private sector employment rose at solid rate.
- Series-record rise in backlogs of work at Chinese private sector firms.

Historical Overview

HSBC China Composite Output PMI



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Notes to Editors:

The HSBC China Services PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The HSBC China Composite PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 800 companies based in the Chinese manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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